

NHRS Board of Trustees, Audit Committee
September 8, 2015

NOTE: These minutes from the September 8, 2015 Audit Committee meeting were approved and executed at the October 13, 2015 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees
September 8, 2015**

The Public Minutes

**New Hampshire Retirement System
54 Regional Drive
Concord, NH 03301**

Committee Members: John Beardmore, Chair; Bill Dwyer; Maureen Kelliher; Germano Martins; and David McCrillis.

Staff: George Lagos, Executive Director; Denise Call, Director of Employer Services; Frank Clough, Director of Information Technology; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; Tamre McCrea, Employer Auditing Team Lead; and John Browne, Internal Auditor.

Chair Beardmore called the meeting to order at 9:00 AM. The Chair started the meeting by congratulating Mr. Dianis, Ms. Fritzky and the Finance Staff for once again receiving the Government Finance Officers Association award for Outstanding Achievement for Excellence in Financial Reporting for both the standard Comprehensive Annual Financial Report (CAFR) and Popular (Summary) CAFR for the fiscal year ended June 30, 2014. The Chair did make special note that NHRS has now been recognized for its standard CAFR for 23 of the past 24 years.

Upon a request from the Chair, a motion was then made by Mr. Dwyer to accept the minutes of the Audit Committee meeting of July 14, 2015. Mr. McCrillis seconded the motion and it carried unanimously.

The Chair then asked Mr. Dianis to provide an update on the Government Accounting Standard Board (GASB) Statement 68 - Accounting and Financial Reports released at the July meeting. Mr. Dianis said the reports have not generated many questions from employers, the only significant question related to how an employer with a September 30 fiscal year should handle their reporting.

Mr. Dianis then discussed the draft for Request for Proposals (RFP) for Audit Services for Fiscal Years 2016-2020 that the System had prepared. He referred the Committee to the timeline that had been created. This called for the RFP to be issued by September 15th, responses to be received by October 6th, the Audit Committee and Board approvals to be obtained at the November meetings, and a contract awarded by

the end of December 2015. He then referred them to the Appendix at the back of the RFP, which breaks down the audit fee by year and by category, i.e. financial statements, census data, GASB work both pension and other postemployment benefits. He noted the RFP was a draft and he would welcome any comments, suggestions relating to the document. Mr. Dwyer said he had a couple of comments which he would send in an email to Mr. Dianis shortly. Lastly Mr. Dianis ended the discussion by saying that the System would like to form an ad hoc committee to evaluate RFP's received and that they would welcome any involvement by members of the audit committee. Mr. Beardmore said he would participate in this evaluation process and would represent the Committee.

Next Mr. Cavanaugh and Ms. McCrea gave a presentation on the NHRS Employer Compliance Unit. Mr. Cavanaugh explained that the unit is made up of three auditors, with Ms. McCrea as the Team Leader. He stated that one of the challenges of the unit is staffing the positions due to turnover. He noted they are presently evaluating position descriptions trying to maintain a competitive balance for comparable positions. He then briefly reviewed the four different types of audits performed, noting some require the auditors to visit the employer -Standard Audits, whereas as others do not require a site visit - Desk Audits. He also noted the third type of audit - Summary Audits, are specific areas of review for compliance which may stem from employer inquiries or a NHRS staff recommendation. The last type of audit he described was the GASB Audit, which is a special limited audit of payroll and contribution records in accordance with GASB standards done in conjunction with the NHRS Internal Auditor under the supervision of the external auditor, KPMG.

Mr. Cavanaugh then reviewed the audit sample selection process noting Ms. McCrea has greatly improved the sampling methodology. In general employers are selected on a rotating basis based on employer size and elapsed time since last audit. He noted all political subdivision employers with 50 or more employees have been audited in the last five years except for Nashua and Rockingham County, and that the focus this coming year would be school districts. Mr. Cavanaugh said the KPM (Key Performance Measure) is to complete six audits per quarter per auditor and one employer education session per quarter. He noted the Compliance Audit KPM has been met in six of the last ten quarters and that the GASB Audits are not counted in the KPM. Reasons for not meeting the standard are attributed to staff turnover and absence; timing issues at the end of a quarter and the additional requirement of performing GASB audits.

Ms. McCrea then walked the Committee through a typical audit performed by the Compliance Auditors. She specifically noted auditors are trained to emphasize NHRS' role in assisting and educating the employer. She spoke of the initial contact letter and questionnaires sent to the employers. Questionnaires are customized for the type of employer and employees (i.e., Group I, Group II, School Districts/SAUs) to address the types of enrollment and earnable compensation issues particular to each group. She said these questionnaires aid considerably in identifying potential compliance issues in advance of the site visit.

Ms. McCrea then reviewed the sampling selection process, indicating that not less than five nor more than twenty five employees are tested at any employer. Testing would include reviewing that employee service credit is correct and that individual payroll contributions are reconciled to the W-2 payroll of employees. She also noted

that the population included not only any active employees but also optional membership employees and retirees, and that the auditors test two of the monthly contribution batches, representing all employee contributions, transmitted by the employer to the System.

At the end of each audit, Ms. McCrea explained the auditor will review their findings with the employer and draft a report. The report is then reviewed by Ms. McCrea and Mr. Cavanaugh, who both sign off on it, and a formal audit report is sent to employer. She identified common audit issues as the employer misreporting of earnable compensation, salary continuance, worker's compensation, and employee work hours. To assist employers in their reporting, she described how the System is now issuing and posting on the NHRS website Interpretive Memos drafted by Legal on a variety of subjects relating to the interpretation of its controlling statute, RSA 100-A. To also assist employers in their reporting, she explained the Employer Audit unit holds employer education sessions, at least once a quarter, both at NHRS and also at selected employer locations.

At the conclusion of the presentation, Mr. McCrillis asked Ms. McCrea in how many of the audits do they find issues with employers. She responded that issues are found with almost every audit. She noted in reviewing the approximately one hundred and seventy audits performed over the last three years, there were maybe five that did not have issues. Mr. Cavanaugh explained that many of these issues may be just administrative procedures not being followed however many of the adjustments may be impacting members who have retired a number of years ago. In those instances, contribution refunds may cause a reduction in a retiree's pension. Mr. Beardmore asked if a statute of limitations has been considered to help address some of these issues that go back many years, and management replied that they are evaluating it. Lastly, Mr. Cavanaugh did note that a review of the State is on their list of audits for the last quarter, and they are working on how they would approach that.

Mr. Browne then provided an update on the Open Audit Issues Tracking System. He stated there were four issues outstanding from the prior month. He noted in August another one was completed relating to the missing interest accrual dates. Member Services through LRS had created a wizard to help them in correcting these records as they are identified.

Mr. Browne then reviewed internal audit activity for the past two months. He noted the Compliance Auditors had completed the five remaining GASB 67 census audits and he had reviewed them. He had mostly minor review notes for the auditors, and no material exceptions have been identified. He stated he was just waiting for KPMG to review the workpapers, resolve any questions, and then letters would be sent to employers noting the status of the work, and thanking them, as was done last year.

Next he reviewed a copy of the audit report evaluating controls over the PensionGold Change Process. As noted in the report no issues were identified. He felt controls were strong, that good separation of duties/responsibilities existed among the Information Technology staff and NHRS users testing the PensionGold changes, and Levi, Ray & Shoup, Inc. (LRS), the software vendor who designs and reviews the results of the changes to the NHRS version of PensionGold. Mr. Browne also noted that since LRS always has the latest version of the application system this strengthens

NHRS's disaster recovery/business continuity plan. He noted this audit report completed the Internal Audit Plan for fiscal year (FY) 2015, and that he had just started the Member Retirement Processing audit, which will be the first audit of FY 2016.

Lastly, as a follow up to a question posed by Mr. McCrillis at a prior meeting as to how frequently high risk audit areas are examined, Mr. Browne reviewed a handout showing operational areas reviewed over the past years and the factors that had entered into selecting the areas for audit. He noted that after discussion with Mr. Lagos, that while factors may exist, i.e. KPMG audit, an outside vendor review, etc., suggesting postponing an audit, they agreed that the two biggest areas of exposure, investments and the payment of pensions, should be included in some manner each year in the annual Internal Audit plan.

As part of Other Business, Mr. Browne explained that as part of the System's annual review of audit charters, the Audit Committee charter had been included in the September Audit package. He said Committee members are asked to review it, suggest any changes before the next meeting, and then the Committee would vote on any proposed revisions in October.

Lastly Mr. Beardmore asked Mr. Clough to just outline the need for an upgrade to the System's Help Desk system, which was proposed in the Board book. Mr. Clough explained that the primary reason for the request is that the present system, Spiceworks, is freeware with limited technical support, limited reporting capabilities, and a user interface that is cumbersome. He said IT had evaluated eight systems, and had selected BMC TrackIT, which had a total cost for the first three years of approximately five thousand dollars. Mr. Beardmore thanked him for the update.

As there being no further business, the Committee tentatively scheduled the next meeting for 8:15 AM immediately prior to the Board meeting on Tuesday, October 13, 2015.

A motion to adjourn was made by Mr. Martins, seconded by Mr. McCrillis, and it carried unanimously.

Respectfully submitted,
John F. Browne